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Thomas J. Gibson
President and CEO

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The Honorable Rob Portman
U.S. Senate
448 Russell SOB
Washington, DC 20510

The Honorable Charles Schumer
U.S. Senate
322 Hart SOB
Washington, DC 20510

Dear Senators Portman and Schumer:

I am writing on behalf of the American Iron and Steel Institute (AISI) to provide you and the Senate Finance Committee International Tax Working Group with stakeholder input as the working group continues its evaluation of ways to reform the nation's tax code within its jurisdiction. Steel and other manufacturing industries are the backbone of the U.S. economy. A strong manufacturing sector creates significant benefits for society, including jobs with family supporting wages, investment in research and development, essential materials for our national defense, and high-value exports. As a result, a robust American manufacturing sector, including a strong and vibrant steel industry, is critical to ensuring a healthy domestic economy and tax policy should incentivize investment in domestic manufacturing facilities and equipment.

The majority of AISI's U.S. member companies operate facilities within the United States. Therefore, changes to the international taxation system are unlikely to have a significant direct effect on our member companies. However, we strongly caution against repeal of tax credits and deductions that are geared toward increased investment in domestic manufacturing in order to finance a transition to a new international taxation system. New investments are critical for U.S. manufacturers who are continuously striving to improve their products and processes in order to compete in the global marketplace. In capital intensive industries, like iron and steel, new investment decisions are generally driven by the cost of capital and the rate of return on an investment. As such, credits and deductions that reduce the cost of capital and promote new investment by capital intensive industries, like accelerated depreciation, the interest expense deduction, percentage depletion, intangible drilling costs (IDCs), and the research and development tax credit, play a significant role in whether or not certain investments are undertaken.

In particular, an enhanced capital-cost recovery system, like the Modified Accelerated Cost Recovery System (MACRS), has always been viewed as one of the most effective

ways to spur real business investment and to make U.S. manufacturing more competitive. However, many proposals that reduce the statutory tax rate and change to a territorial international taxation system do so by proposing a repeal of MACRS and replacing it with a system similar to the alternative depreciation system (ADS) which requires longer recovery times and the use of a straight-line depreciation method.

For capital intensive industries like steel, accelerated depreciation is a cash flow issue which is extremely important in making capital investment decisions. By providing a faster return on capital investment, accelerated depreciation provides strong incentives, and in many cases actually makes it possible, to undertake new investments which require significant cash expenditures and take a number of years to yield a return. Proposals which would repeal this cost recovery system and replace it with ADS, which provides depreciation lives for production equipment that are two times as long as under MACRS, will directly penalize those who invest the most in capital expenditures and ultimately impact whether or not many manufacturing companies make certain discretionary capital investments. While we recognize that this change may not affect a company's earnings statements, it will negatively impact a company's investment decisions and will have the effect of raising the cost of new capital investments while providing tax savings to investments already made.

Additionally, using slower depreciation is a questionable revenue offset because while in the short-term, it will increase the amount of revenue coming into the federal government, in the longer-term, those same cuts will lead to revenue losses, having the effect of increasing the budget deficit. Conversely, some analyses assert that if you implemented the Camp tax reform plan, but kept accelerated depreciation, you would generate more GDP than you will under Camp's plan with the repeal of MACRS. As such, we have real concerns about the impact of slowing depreciation on the overall economy as well as on our member companies and their ability to make new investments and would encourage against slowing depreciation in order to find revenue to offset the cost associated with transitioning to a territorial taxation system or lower statutory tax rate.

We would also caution against proposals that would make changes to interest expensing, like those included in former House Ways and Means Committee Chairman Dave Camp's tax reform legislation, which are of concern to a number of our member companies who have foreign ownership. As you know, under current law, a U.S. corporation can deduct interest payments including payments to a related party.

However, if the taxpayer's debt-to-equity ratio exceeds 1.5 to 1, interest payments to related parties that are not subject to U.S. tax are disallowed to the extent that the taxpayer has "excess interest expense." "Excess interest expense" is a taxpayer's net interest expense in excess of 50 percent of the taxpayer's adjusted taxable income. Former Chairman Camp's plan would have reduced the threshold for excess interest expense to 40 percent of adjusted taxable income. Currently any disallowed interest deductions can be carried forward indefinitely; while any "excess limitation" may be carried forward three years. The Camp proposal would have also disallowed corporations to carry forward any "excess limitation."

Limiting a corporation's ability to deduct its interest expense will increase the overall cost of capital, disproportionately hurting those capital intensive industries that need to borrow to grow because of the considerable costs associated with those investments. In addition to penalizing foreign companies who may have made substantial investments in the U.S., as in the Camp draft, placing limitations on interest expense deductions will negatively impact small and medium size businesses that do not have access to other sources of capital. Like other provisions in the tax code, the ability to deduct a company's interest expense is very important and contributes significantly to decisions to invest in major manufacturing facilities.

In closing, I want to commend the Finance Committee members and staff for continuing to push forward on tax reform, which is no easy task. We appreciate the opportunity to provide input into this process and we look forward to working with you and the Finance Committee as efforts to reform the tax code move forward in the weeks ahead.

Sincerely,

A handwritten signature in black ink, appearing to read "Thomas J. Gibson". The signature is fluid and cursive, with the first name "Thomas" and last name "Gibson" clearly distinguishable.

Thomas J. Gibson
President and CEO
American Iron and Steel Institute